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EAIR, ASEC, PTER, KCOR, KE

SUBJECT: KENYA ECONOMIC HIGHLIGHTS: JANUARY 2009

REF: Nairobi 82

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- [11.](#) (SBU) IMF SEES SLOW GROWTH/RECESSION IN 2009

We met January 21 with IMF Country Director Scott Rogers to discuss his economic forecast. Rogers said he expected only 2% CY2008 GDP growth due to the double whammy of post-election violence and the global downturn. Because of ongoing recessions in much of the developed world, Rogers anticipates that Kenya's economy will expand by only about 3% (half its potential) in CY2009. Given Kenya's 2.9% population rate, he suggested the country would essentially experience a recession in 2009. Indicators for slow growth include falling remittances (down 33% in November) and sluggish demand for key exports tourism, cut flowers, tea and coffee. The IMF also expects foreign direct investment to fall in the coming months.

Rogers reported that Kenya has expressed interest in pursuing financing through the IMF's Exogenous Shocks Facility, designed to help developing countries weather the global economic crisis. Rogers thought Kenya could meet the Facility's "light" conditionality and access \$100 million. The proceeds would likely

help subsidize maize prices, which have doubled since last year. Rogers said the Fund would not be speaking out against the current maize and oil scandals (septel), as fighting corruption lies outside the Fund's mandate/programs.

## 12. (SBU) TEACHERS STRIKE; POLICE MAKE ARRESTS

As planned, the Kenya National Union of Teachers (KNUT) began to strike January 19 demanding an immediate pay increase for its approximately 200,000 members (reftel). While KNUT and the government reached agreement on the size of a pay hike (approximately 25%), the government insists on phasing in the raise over three years. According to media reports, the police arrested dozens of teachers across the country, including KNUT officials, for participating in the illegal strike. The government continues to threaten to replace the teachers if they don't return to work. The strike has frozen primary education for millions of Kenyan children.

## 13. (SBU) CIVAIR LEADERSHIP UP IN THE AIR

Big questions remain about the future leadership of both the Kenya Airports Authority (KAA) and Kenya Civil Aviation Authority (KCAA). KAA's managing director, George Muhoho, will reportedly step down once his contract expires in two months. Muhoho was recently implicated in a government probe into the mishandling of infrastructure contracts; he is a close friend of President Kibaki's. Since Chris Kuto's retirement as managing director of KCAA in December 2008, the government has struggled to find a suitable replacement. This gap has left air operators anxiously pushing government to quickly name and install Kuto's successor. Given U.S. interest in both Kenya's achievement of FAA Category 1 and a smooth launch for Delta Airlines in June 2009, we will closely follow developments surrounding these positions.

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